

BIG RAPIDS HOUSING COMMISSION  
BIG RAPIDS, MICHIGAN  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2007  
AND  
REPORTS ON COMPLIANCE AND  
ON INTERNAL CONTROL

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Big Rapids Housing Commission	County
Fiscal Year End 03/31/2007	Opinion Date 06/07/2007	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

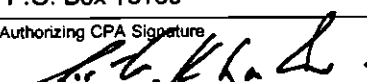
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Sailor, Khan & Co., LLC		Telephone Number 314-726-3308	
Street Address P.O. Box 16180		City St. Louis	State MO
Zip 63105			
Authorizing CPA Signature 	Printed Name Shah I. Khan	License Number 1101018584	

BIG RAPIDS HOUSING COMMISSION  
Big Rapids, Michigan

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**Khan & Co. LLC****INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Big Rapids Housing Commission  
Big Rapids, Michigan

We have audited the accompanying basic financial statements of the Big Rapids Housing Commission, Michigan, (Commission) as of and for the year ended March 31, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

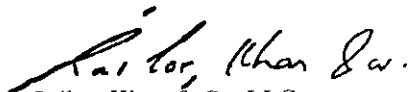
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Big Rapids Housing Commission, Michigan, as of March 31, 2007, and the changes in its financial position and its cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2007, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages ii to vii is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the remaining accompanying supplemental information including the Financial Data Schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
Sailor, Khan & Co. LLC  
June 7, 2007

## **Big Rapids Housing Commission**

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### **Management's Discussion and Analysis (MD&A)**

**March 31, 2007**

**(Unaudited)**

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This section of the Big Rapids Housing Commission (Commission) annual financial report presents our management's discussion and analysis of the Commission's financial performance during the fiscal year ended on March 31, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

For accounting purposes, the Housing Commission is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

The Big Rapids Housing Commission operates several programs which are summarized below:

#### Low Rent Public Housing

The Big Rapids Housing Commission currently operates public housing units within three distinctive developments, which include: South Parkview Village (MI-041-001), North Parkview Village (MI-041-002), and Evergreen Village (MI-041-003). The Housing Commission is responsible for the complete management and maintenance of all the public housing units and properties. The funds to operate these units are generated from rent revenues, interest income, miscellaneous income, and operating subsidy provided by the Department of Housing and Urban Development.

#### Capital Fund Program

The Big Rapids Housing Commission is awarded a capital fund grant each year, which is determined by HUD upon the level of appropriations from Congress. The funds are spent on various improvements to the public housing units, properties, and management needs. In the past fiscal year the Big Rapids Housing Commission completed; an upgrade to the highrise fire alarm system, new smoke detectors in all units, replacement of tub surrounds, new entry renovations, parking lot improvements and landscape replacement. In addition the Big Rapids Housing Commission leveraged future Capital fund Program awards by borrowing \$1,700,000 for needed improvements to the public housing units. The debt is repaid by pledging 33% of Capital Fund Awards proceeds for the next 20 years.

#### Childcare/Learning Center

The Big Rapids Housing Commission operates a childcare/learning center which is licensed by the State of Michigan for 55 children. The center provides quality childcare and a structured learning environment for children. The center priority is to serve the residents of public housing but is also open to the general public.

**Big Rapids Housing Commission**  
**(Unaudited)**  
**Management's Discussion and Analysis (MD&A) - Continued**

Homeownership Program

The Big Rapids Housing Commission operates a Homeownership Program funded by Acquisition/Development/Resale (ADR) grants from the Michigan State Housing Development Authority. The housing commission acquires single family homes and then completely renovates each for sale to income qualified homebuyers. Public housing residents have priority in purchasing these homes.

Nisbett-Fairman Buildings

The Big Rapids Housing Commission is the managing general partner of the Nisbett-Fairman LDHA LP, which owns and operates the 47 senior apartments in the second and third floors of the Nisbett & Fairman buildings. The Big Rapids Housing Commission is the sole owner of the first floor of each building and rents the commercial space in each building to local businesses. The ownership of buildings is separated according to the Nisbett-Fairman Condominium Deed.

**FINANCIAL HIGHLIGHTS**

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of March 31, 2007 were \$5,820,567. The net assets increased by \$112,859, an increase of 2.0% over the prior year.

Revenues and contributions for the Commission were \$2,292,696 for the year ended March 31, 2007. This was an increase of 13.1% from the prior year.

Expenses for the Authority were \$2,179,837 for the year ended March 31, 2007. This was an increase of 3.6% from the prior year.

HUD operating grants were \$562,705 for the year ended March 31, 2007. This was a decrease of \$35,137 or 5.9% from the prior year. Capital contributions for the Commission were \$440,548 for the year ended March 31, 2007. This was an increase of \$189,815 or 75.7% over the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund level financial statements because the Commission only has proprietary funds.

*Required Financial Statements*

The financial statements of the Housing Commission report information of the Commission using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Commission and assessing the liquidity and financial flexibility of the Commission.

**Big Rapids Housing Commission**  
(Unaudited)  
**Management's Discussion and Analysis (MD&A) - Continued**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

**Supplemental Information**

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established *Uniform Financial Reporting Standards* that require Housing Commission's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended March 31, 2007 and is required to be included in the audit reporting package.

**FINANCIAL ANALYSIS**

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets exceeded liabilities by \$5,820,567 at the close of the year ended March 31, 2007 up from \$5,707,708 in 2006. The increase in net assets of \$112,859 was due to the change in net assets for the year.

The unrestricted net assets were \$729,927 as of March 31, 2007. This amount may be used to meet the Commission's ongoing obligations. The Commission had no net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

Restricted assets increased by \$1,643,497 due to the Commission's participating in the Fannie Mae Modernization Express Program. Other assets increased due to the bond issuance cost associated with the above participation

Current liabilities increased due to current notes payable reflecting the projected pay off of the loan related to the Historical Project. Noncurrent liabilities increased due to the Commission's participating in the Fannie Mae Modernization Express Program.

**Big Rapids Housing Commission**  
**(Unaudited)**  
**Management's Discussion and Analysis (MD&A) - Continued**

**FINANCIAL ANALYSIS (CONTINUED)**

**CONDENSED STATEMENTS OF NET ASSETS**  
**MARCH 31,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 1,053,575	\$ 959,650	\$ 93,925	9.8%
Restricted assets	1,645,415	1,918	1,643,497	85688.1%
Capital assets	5,450,159	5,526,884	(76,725)	-1.4%
Other assets	63,560	9,338	54,222	580.7%
Total Assets	<u>8,212,709</u>	<u>6,497,790</u>	<u>1,714,919</u>	26.4%
Current liabilities	632,110	229,184	402,926	175.8%
Noncurrent liabilities	1,760,032	560,898	1,199,134	213.8%
Total Liabilities	<u>2,392,142</u>	<u>790,082</u>	<u>1,602,060</u>	202.8%
Net Assets				
Invested in capital assets, net of related debt	5,090,640	5,137,674	(47,034)	-0.9%
Unrestricted	729,927	570,034	159,893	28.1%
Total Net Assets	<u>\$ 5,820,567</u>	<u>\$ 5,707,708</u>	<u>\$ 112,859</u>	2.0%

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the following table, total revenues and contributions increased by \$265,653 due to increases in capital contributions, rental revenues, other operating grants, interest income, and other income, which were slightly offset by a decrease in HUD operating grants

Capital contributions increased by \$189,815 due to increased spending on capital projects. Interest income increased by \$20,579 due to the interest received on the restricted cash from the participating in the Fannie Mac Modernization Express Program.

Total expenses for the Commission increased by \$75,870 due to increases in operation and maintenance, non routing maintenance, payment in lieu of taxes, and other supplies and expenses, which were partially off set by decreases in personal services, utilities, insurance, and interest expenses.

Non routine maintenance increased due to unexpected maintenance cost during the year. Operations and maintenance increased by \$24,577 due to increased activities related to capital projects. Insurance decreased by \$26.5% due to changes in insurance policies.



**Big Rapids Housing Commission**  
**(Unaudited)**  
**Management's Discussion and Analysis (MD&A) - Continued**

**FINANCIAL ANALYSIS (CONTINUED)**

**CONDENSED STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
YEARS ENDED MARCH 31,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Revenues and Contributions</b>				
Operating - non-operating -capital contributions:				
Rental revenue	\$ 837,705	\$ 830,544	7,161	0.9%
HUD operating grants	562,705	597,842	(35,137)	-5.9%
Operating grants - other	10,828	10,115	713	6.6%
Interest income	27,533	6,954	20,579	295.9%
Capital Contributions	440,548	250,733	189,815	75.7%
Other income	413,227	329,525	83,702	25.4%
Gain on sale of fixed assets	150	1,330	(1,180)	-88.7%
Total Revenues and Contributions	<u>2,292,696</u>	<u>2,027,043</u>	<u>265,653</u>	13.1%
<b>Expenses</b>				
Personal services	789,267	799,865	(10,598)	-1.3%
Utilities	320,397	342,835	(22,438)	-6.5%
Operations and maintenance	119,557	94,980	24,577	25.9%
Non routine maintenance	1,000	----	1,000	100.0%
Insurance	68,402	93,026	(24,624)	-26.5%
Payment in lieu of taxes	57,108	47,808	9,300	19.5%
Other supplies and expenses	168,068	140,401	27,667	19.7%
Interest expense	39,691	41,321	(1,630)	-3.9%
Other expense nct from sale of property	95,574	----	95,574	100.0%
Depreciation	520,773	543,731	(22,958)	-4.2%
Total Expenses	<u>2,179,837</u>	<u>2,103,967</u>	<u>75,870</u>	3.6%
Change in net assets	112,859	(76,924)	189,783	
Beginning net assets	<u>5,707,708</u>	<u>5,784,632</u>	<u>(76,924)</u>	
Ending net assets	\$ <u><u>5,820,567</u></u>	\$ <u><u>5,707,708</u></u>	\$ <u><u>112,859</u></u>	

**Big Rapids Housing Commission**  
**(Unaudited)**  
**Management's Discussion and Analysis (MD&A) - Continued**

**CAPITAL ASSETS**

*Capital Assets* - The Big Rapids Housing Commission's capital assets, as of March 31, 2007, amounts to \$5,450,159 (net of accumulated depreciation). The capital assets includes land, buildings, improvements, equipment and construction in progress.

**CAPITAL ASSETS**  
**NET OF ACCUMULATED DEPRECIATION**  
**MARCH 31,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>
Land	\$ 337,455	\$ 337,455	\$ ----
Building	13,316,008	13,055,369	260,639
Furniture, equipment and machinery- dwelling	188,770	177,590	11,180
Furniture, equipment and machinery- administration	349,099	361,622	(12,523)
Leasehold improvements	781,212	632,415	148,797
Construction in progress	<u>19,872</u>	<u>----</u>	<u>19,872</u>
	14,992,416	14,564,451	427,965
Accumulated depreciation	<u>9,542,257</u>	<u>9,037,567</u>	<u>504,690</u>
Total	<u>\$ 5,450,159</u>	<u>\$ 5,526,884</u>	<u>\$ (76,725)</u>

The total decrease in the Commission's capital assets for the current fiscal year was \$76,725 in terms of net book value. Actual expenditures to purchase equipment and construct capital assets were \$465,727 for the year. The Commission has \$130,198 available in Capital Funds to draw down and spend in the future.

**Debt Administration-** As of the year ending March 31, 2007, the Commission had \$1,747,437 in long-term debt, net of current portion of \$399,720 outstanding compared to \$549,020 last year. The increase is a result of participating in the Capital Fund Financing Program. For more detail , please refer to Note, 3h. in the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Housing Commission is primarily dependent upon HUD for the funding of Low Rent operations; therefore, the Housing Commission is affected more by the Federal budget than by local economic conditions. The funding of programs could be significantly affected by the 2007 Federal budget and changes required with the implementation of asset management. The Big Rapids Housing Commission has realized a substantial increase in operating subsidy from HUD in the fiscal year ending 3/31/07. This increase is a result of changes implemented by HUD in the Operating Fund Program. The Big Rapids Housing Commission expects increased operating subsidy for the fiscal year ending 3/31/08 despite an uncertain pro-ration of the operating fund.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to: Mark W. Sochocki, Executive Director, Big Rapids Housing Commission, 9 Parkview Village, Big Rapids, Michigan, 49307.

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

STATEMENT OF NET ASSETS

March 31, 2007

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 580,872.10
Investments	75,417.72
Receivable - net of allowances:	
Accounts	44,016.02
Accrued interest	1,143.66
Inventory - net of allowances	5,980.10
Inventory - held for sale	283,892.09
Prepaid expenses	<u>62,253.68</u>
 Total Current Assets	 <u>1,053,575.37</u>

Noncurrent Assets:

Restricted assets:

Cash and cash equivalents	<u>1,645,415.25</u>
 Total restricted assets	 <u>1,645,415.25</u>

Capital assets:

Land, improvements, and construction in progress	357,327.30
Other capital assets, net of depreciation	<u>5,092,831.54</u>
 Total capital assets- net	 <u>5,450,158.84</u>

Other assets

Investment in joint venture	1,000.00
Bond issuance costs, net of amortization of \$	54,222.23
Organization costs- net	<u>8,337.86</u>
 Total other assets- net	 <u>63,560.09</u>

Total Noncurrent Assets	<u>7,159,134.18</u>
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Total Assets	<u>\$ 8,212,709.55</u>
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See notes to financial statements

BIG RAPIDS HOUSING COMMISSION  
Big Rapids, Michigan  
**STATEMENT OF NET ASSETS (CONTINUED)**

March 31, 2007

**LIABILITIES**

Current Liabilities:

Accounts Payable	\$ 114,026.76
Accrued compensated absences	13,036.00
Tenant security deposit liability	80,393.50
Interest payable	2,051.87
Current portion of long term debt	399,719.52
Deferred revenues	<u>22,882.89</u>

Total Current Liabilities	<u>632,110.54</u>
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Noncurrent Liabilities:

Long term debt	1,747,436.61
Accrued compensated absences	<u>12,594.93</u>

Total Noncurrent Liabilities	<u>1,760,031.54</u>
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Total Liabilities	<u>2,392,142.08</u>
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**NET ASSETS**

Invested in capital assets, net of related debt	5,090,640.19
Unrestricted	<u>729,927.28</u>

Total Net Assets	<u>5,820,567.47</u>
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Total Liabilities and Net Assets	<u><u>\$ 8,212,709.55</u></u>
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See notes to financial statements

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For Year Ended March 31, 2007

**Operating Revenues:**

Rental revenue	\$ 837,704.88
Operating subsidies- HUD grants	562,705.16
Operating subsidies- other grants	10,827.83
Other revenues	<u>413,226.99</u>

Total operating revenues	<u>1,824,464.86</u>
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**Operating Expenses:**

Personal services	789,266.87
Utilities	320,397.05
Operations and maintenance	119,556.46
Non routine maintenance	1,000.04
Insurance	68,402.13
Payment in lieu of taxes	57,107.79
Other supplies and expenses	168,067.70
Depreciation	<u>520,772.64</u>

Total operating expenses	<u>2,044,570.68</u>
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Operating income (loss)	<u>(220,105.82)</u>
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**Non-operating revenues (expenses):**

Interest and investment earnings	27,532.88
Interest expense	(39,690.93)
Other revenue (expenses) net from sale of property	(95,574.34)
Gain (Loss) on sale of fixed assets	<u>150.00</u>

Net non-operating revenues (expenses)	<u>(107,582.39)</u>
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Income (loss) before other revenues, expenses, gains, losses and transfers	(327,688.21)
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Capital contributions	<u>440,548.19</u>
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Change in net assets	112,859.98
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Net assets at beginning of year	<u>5,707,707.49</u>
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Net assets at end of year	<u>\$ 5,820,567.47</u>
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See notes to financial statements

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

STATEMENT OF CASH FLOWS

For Year Ended March 31, 2007

**Cash flows from operating activities:**

Cash received from tenants	\$ 839,555.93
Cash received from HUD grants- operating	562,705.16
Cash received from other grants	9,935.17
Cash received from other operating activities	410,082.05
Cash payments for goods and services	(670,803.77)
Cash payments to employees-salaries	(595,635.81)
Cash payments for employee benefit contributions	(193,176.94)
Cash payments for in lieu of property taxes	<u>(54,770.41)</u>

Net cash provided (used) by operating activities	<u>307,891.38</u>
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**Cash flows from capital and related financing activities:**

Proceeds from capital debt	1,700,000.00
Capital contributions	420,676.34
Proceeds from sale of assets	157,948.41
Receipts (payments) from deferred credits and escrow deposits	(1,917.68)
Payments for capital assets	(465,727.41)
Payments for loan issuance costs and capitalized interest	(54,222.23)
Payments for inventory held for sale	(69,267.29)
Principal paid on capital debt	(131,922.51)
Interest paid on capital debt including issuance cost amortization	<u>(40,069.41)</u>

Net cash (used) for capital and related financing activities	<u>1,515,498.22</u>
--	---------------------

**Cash flows from investing activities:**

Proceeds from sale of (payments) for investments	9,438.97
Interest and dividends	26,886.88
Receipts (payments) from tenant security deposits	<u>(3,026.00)</u>

Net cash provided (used ) from investing activities	<u>33,299.85</u>
---	------------------

Net increase (decrease) in cash and cash equivalents	1,856,689.45
Cash and cash equivalents at beginning of year	<u>369,597.90</u>

Cash and cash equivalents at end of year	<u><u>\$ 2,226,287.35</u></u>
--	-------------------------------

See notes to financial statements

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

STATEMENT OF CASH FLOWS (CONTINUED)

For Year Ended March 31, 2007

Cash and cash equivalents	\$ 580,872.10
Restricted cash and cash equivalents	<u>1,645,415.25</u>
Total cash and cash equivalents at end of year	<u>\$ 2,226,287.35</u>
<b>Noncash Investing, Capital and Financing Activities:</b>	
Acquisition of capital assets on account	<u>\$ 19,871.85</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ (220,105.82)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	520,772.64
Allowance for doubtful accounts	(52.37)
Changes in assets and liabilities:	
Receivables	(4,009.40)
Inventory	963.08
Prepaid expenses	(9,109.49)
Accounts and other payables	13,638.84
Deferred revenues	5,339.78
Compensated absences	669.75
Accrued expenses	<u>(215.63)</u>
Net cash provided (used) by operating activities	<u>\$ 307,891.38</u>

See notes to financial statements

## Big Rapids, Michigan

March 31, 2007



BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1b. Basis of Presentation (Continued)

Following is a description of the Commission's programs:

Program	Brief Description				
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.				
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.				
Home-ownership-	The Commission operates a Home-ownership Program funded through grants from Michigan State Housing Development Authority and provides for the purchase and renovation of homes within the City of Big Rapids. These homes are sold to qualified buyers at their appraised value. Participants in the Commission's Family Self Sufficiency Program are given a priority to purchase the renovated homes.				
Business Activities	The business activities of the Commission are comprised of the following: <table><tr><td>Historical Project -</td><td>The Commission has a wholly owned subsidiary called the Big Rapids Housing Inc. which is the general partner of the Nisbett-Fairman Limited Dividend Housing Association Limited Partnership. The Partnership operates 47 residential apartments on the 2<sup>nd</sup> and 3<sup>rd</sup> floors of the Nisbett and Fairman buildings while the Commission retains ownership of the 1<sup>st</sup> floor commercial spaces in both buildings.</td></tr><tr><td>Childcare Center-</td><td>In August 2000 the Commission constructed a learning /childcare center which is the Stepping Stones Childcare Center. The center is currently licensed for 55 children.</td></tr></table>	Historical Project -	The Commission has a wholly owned subsidiary called the Big Rapids Housing Inc. which is the general partner of the Nisbett-Fairman Limited Dividend Housing Association Limited Partnership. The Partnership operates 47 residential apartments on the 2 <sup>nd</sup> and 3 <sup>rd</sup> floors of the Nisbett and Fairman buildings while the Commission retains ownership of the 1 <sup>st</sup> floor commercial spaces in both buildings.	Childcare Center-	In August 2000 the Commission constructed a learning /childcare center which is the Stepping Stones Childcare Center. The center is currently licensed for 55 children.
Historical Project -	The Commission has a wholly owned subsidiary called the Big Rapids Housing Inc. which is the general partner of the Nisbett-Fairman Limited Dividend Housing Association Limited Partnership. The Partnership operates 47 residential apartments on the 2 <sup>nd</sup> and 3 <sup>rd</sup> floors of the Nisbett and Fairman buildings while the Commission retains ownership of the 1 <sup>st</sup> floor commercial spaces in both buildings.				
Childcare Center-	In August 2000 the Commission constructed a learning /childcare center which is the Stepping Stones Childcare Center. The center is currently licensed for 55 children.				

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2007

**NOTE 1 - Summary of Significant Accounting Policies (Continued)**

**1c. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

In the financial statements, the “economic resources” measurement focus is used as follows:

- ▶ The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

**Basis of Accounting**

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

**1d. Assets, Liabilities, and Equity**

**Cash and Investments**

For the purpose of the Statement of Net Assets, “cash and cash equivalents” includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2b. and 3a.

**Interprogram Receivables and Payables**

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2007

**NOTE 1 - Summary of Significant Accounting Policies (Continued)**

**1d. Assets, Liabilities, and Equity (Continued)**

**Receivables**

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable, accounts receivable-other government, accounts receivable-miscellaneous and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

**Other Assets**

This consists of Capitalized Interest of \$24,063.63 and Loan Issuance Cost of \$35,146.00 for a total of \$59,209.63, net of amortization of \$4,987.40. The capitalized interest is being amortized through the interest accrual date of four months from March, 2007 through June, 2007, and the loan issuance costs are amortized over the term of the loan maturity of 20 years.

**Inventories**

Inventories are valued at average cost, and consist of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

**Budgets and Budgetary Accounting**

The Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

**Estimates and Assumptions**

The Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity (Continued)

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$100.00 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	3 - 40	years
Furniture, equipment and machinery - dwelling	10 - 15	years
Furniture, equipment and machinery - administration	3 - 15	years
Leasehold improvements	3 - 40	years
Organization costs	40	years

Restricted Assets

Restricted assets include cash and investments legally restricted as to their use. The primary restricted assets are related to Family Self Sufficiency which is a HUD program.

Compensated Absences

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2007

**NOTE 1 - Summary of Significant Accounting Policies (Continued)**

**1d. Assets, Liabilities, and Equity (Continued)**

**Equity Classifications**

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation plus unspent loan proceeds plus unamortized loan deferred charges and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Commission had no related debt.
- b. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**1e. Revenues, Expenditures, and Expenses**

**Operating Revenues and Expenses**

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

**Interfund Transfers**

For the purposes of the Statement of Revenues, Expenses and Change in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

**NOTE 2 - Stewardship, Compliance, and Accountability**

The Commission and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Commission's compliance with significant laws and regulations and demonstration of its stewardship over Commission resources follows.

**2a. Program Accounting Requirements**

The Commission complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Commission are as follows:

<b>Program</b>	<b>Required By</b>
Public and Indian Housing	U.S. Department of Housing and Urban Development
Capital Fund Program	U.S. Department of Housing and Urban Development
Home Ownership	State of Michigan Housing Development Agency
Business Activities - Childcare Center	State of Michigan Department of Education
Business Activities - Historical Project	Housing Commission

**2b. Deposits and Investments Laws and Regulations**

In accordance with state law, all uninsured deposits of the Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Commission must have a written collateral agreement. As reflected in Note 3a., all deposits were fully insured or collateralized.

Investments of the Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

**2c. Revenue Restrictions**

The Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

<i>Revenue Source</i>	<i>Legal Restrictions of Use</i>
Capital Fund Program	Modernization
Business Activities - Childcare Center	Lunch program

For the year ended March 31, 2007, the Commission complied, in all material respects, with these revenue restrictions.

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

**NOTE 3 - Detail Notes on Transaction Classes/Accounts**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

**3a. Cash and Investments**

**Deposits**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it or the Commission will not be able to recover collateral securities in the possession of an outside party. As of March 31, 2007, the Commission's bank balances of \$2,250,323.24, were insured by federal depository insurance or collateralized with securities held by the pledging financial institutions in the Commission's name.

**Investments**

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of March 31, 2007, the Commission's investments were \$75,417.72. These investments were insured by federal depository insurance or registered, or securities held by the Commission or its agent in the Commission's name.

*Credit Risk Investments, Concentrations of Credit Risk and Interest Rate Risk - Investments:*

*Credit Risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission will minimize credit risk by reviewing the financial institutions with which the Commission will do business so that potential losses on individual securities will be minimized.

*Interest Rate Risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Commission will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements and investing operating funds primarily in shorter term securities.

*Concentration of Credit Risk* is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer. The Commission does not have a written investment policy covering concentration of credit risk.

# BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

### NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

#### 3b. Restricted Assets

The restricted assets as of March 31, 2007, are as follows:

<u>Type of Restricted Assets</u>	<u>Cash Including Time Deposits</u>	<u>Investments</u>	<u>Accrued Interest</u>	<u>Total</u>
Fannie Mae Modernization	\$ 1,645,415.25	\$ ----	\$ ----	\$ 1,645,415.25
	<u>\$ 1,645,415.25</u>	<u>\$ ----</u>	<u>\$ ----</u>	<u>\$ 1,645,415.25</u>

#### 3c. Accounts Receivable

Receivables detail at March 31, 2007, is as follows:

Tenant accounts receivable	\$ 8,842.31	
Allowance for doubtful accounts	<u>(841.85)</u>	
Tenants accounts receivable - net		\$ 8,000.46
Accounts receivable - other government	892.66	
Allowance for doubtful accounts	<u>(238.66)</u>	
Accounts receivable - other government - net		654.00
Accounts receivable - HUD		19,871.85
Accounts receivable - other		<u>15,489.71</u>
		<u>\$ 44,016.02</u>



# BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

### NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

#### 3d. Capital Assets

Capital asset activity for the year ended March 31, 2007, was as follows:

	<u>Balance April 1, 2006</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>Balance March 31, 2007</u>
Land	\$ 337,455.45	\$ 18,307.00	\$ (18,307.00)	\$ 337,455.45
Infrastructure	-----	-----	-----	-----
Building	13,055,368.64	287,442.89	(26,803.61)	13,316,007.92
Furniture, equipment and machinery- dwelling	177,590.00	11,179.57	-----	188,769.57
Furniture, equipment and machinery- administration	361,622.04	-----	(12,523.00)	349,099.04
Leasehold improvements	632,414.40	148,797.95	-----	781,212.35
Construction in progress	-----	<u>19,871.85</u>	-----	<u>19,871.85</u>
	14,564,450.53	<u>\$ 485,599.26</u>	<u>\$ (57,633.61)</u>	14,992,416.18
Accumulated depreciation	<u>9,037,566.90</u>	<u>\$ 520,772.64</u>	<u>\$ (16,082.20)</u>	<u>9,542,257.34</u>
Total	<u>\$ 5,526,883.63</u>			<u>\$ 5,450,158.84</u>

#### 3e. Accounts Payable

Payable detail at March 31, 2007, is as follows:

Accounts payable - vendors	\$ 74,692.44
Accounts payable - other government - PILOT	38,334.32
Accrued liabilities - other	<u>1,000.00</u>
	<u>\$ 114,026.76</u>

#### 3f. Compensated Absences

Accumulated unpaid compensated absences are accrued. The liability for compensated absences at March 31, 2007 is \$25,630.93.

# BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

### NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

#### 3g. Non-current Liabilities

As of March 31, 2007, the non-current liabilities are comprised of the following:

Accrued compensated absences - non current portion	\$ <u>12,594.93</u>
Total	\$ <u>12,594.93</u>

The following is a summary of changes in non-current liabilities for the year ended March 31, 2007:

	<u>Balance March 31, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2007</u>	<u>Amounts Due within One Year</u>
Deferred credits and escrow deposits	\$ 1,917.68	\$ ----	\$ 1,917.68	\$ ----	\$ ----
Accrued compensated absences	<u>9,960.38</u>	<u>2,634.55</u>	<u>----</u>	<u>12,594.93</u>	<u>13,036.00</u>
Total	\$ <u>11,878.06</u>	\$ <u>2,634.55</u>	\$ <u>1,917.68</u>	\$ <u>12,594.93</u>	\$ <u>13,036.00</u>

#### 3h. Long-term Debt

##### Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended March 31, 2007:

Type of Debt	<u>Balance March 31, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2007</u>	<u>Amounts Due within One Year</u>
Notes Payable - Historical Project	\$ 359,151.52	\$ ----	\$ 359,151.52	\$ ----	\$ 359,156.13
Notes Payable - Home Ownership	<u>189,868.71</u>	<u>----</u>	<u>101,868.71</u>	<u>88,000.00</u>	<u>----</u>
Notes Payable - Low Rent	<u>----</u>	<u>1,659,436.61</u>	<u>----</u>	<u>1,659,436.61</u>	<u>40,563.39</u>
Total	\$ <u>549,020.23</u>	\$ <u>1,659,436.61</u>	\$ <u>461,020.23</u>	\$ <u>1,747,436.61</u>	\$ <u>399,719.52</u>

**BIG RAPIDS HOUSING COMMISSION**

Big Rapids, Michigan

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2007

**NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)**

**Annual Debt Service Requirements**

The annual debt service requirements to maturity for long-term debt as of March 31, 2007, are as follows:

<u>Project/Loan #</u>	<u>Date of Note</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Current Balance</u>	<u>Maturity Date</u>
Historical Project					
Chemical Bank #000842011637	8-08-02	\$ 480,780.33	7.25%	\$ 359,156.13	8-08-07
Secured by two parcels of real estate located at 101 and 102 S. Michigan Avenue in Big Rapids, Michigan					
Home Ownership					
City of Big Rapids #2	2-03-06	\$ 24,800.00	5.25%	15,000.00	1-01-09
This is an unsecured note					
City of Big Rapids #3	8-11-06	\$ 73,000.00	5.50%	73,000.00	1-01-09
This is an unsecured note					
Low Rent					
Fannie Mae Modernization Express Program	3-08-07	\$ 1,700,000.00	4.55%	<u>1,700,000.00</u>	4-01-27
Capital Fund Revenue #967					
				<u>\$ 2,147,156.13</u>	

<u>Year Ending March 31</u>	<u>Historical Project Note Payable Principal</u>	<u>Home Ownership Note Payable Principal</u>	<u>Low Rent Note Payable Principal</u>	<u>Total Note Payable Principal</u>
2008	\$ 359,156.13	\$ ----	\$ 40,563.39	\$ 399,719.52
2009	----	----	41,066.48	41,066.48
2010	----	----	58,671.38	58,671.38
2011	----	----	61,397.32	61,397.32
2012	----	----	64,249.89	64,249.89
Subsequent years	----	88,000.00	1,434,051.54	1,522,051.54
	<u>\$ 359,156.13</u>	<u>\$ 88,000.00</u>	<u>\$ 1,700,000.00</u>	<u>\$ 2,147,156.13</u>

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

**NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)**

**3i. Assets Held for Sale**

The amount of \$283,892.09 shown as assets held for sale represents homes to be sold to qualified buyers at their appraised value.

**3j. Interprogram Transactions and Balances**

*Operating Transfers*

	<b>Transfers in</b>	<b>Transfers out</b>
Public and Indian Housing - Low Rent	\$ 78,700.00	\$ ----
Capital Fund Program	----	78,700.00
Total	\$ <u>78,700.00</u>	\$ <u>78,700.00</u>

Transfers are used to move revenues from the program that is authorized to transfer them to the program in accordance with budgetary authorizations.

*Interprogram Receivable/Payable*

Public and Indian Housing - Low Rent	\$ 767.23
Business Activities - Historical Project	13,300.00
Business Activities - Home Ownership	(14,999.06)
Business Activities - Childcare Center	<u>931.83</u>
Total	\$ <u>-----</u>

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

**NOTE 4 - Other Notes**

**4a. Employee Retirement Plan**

The Commission has the following employee retirement plans:

Defined Benefit Plan for employees hired before July 1, 1999:

A defined benefit plan depends on the amount of pension benefits to be provided at a future date of after a certain period of time; the amount specified usually is a function of one or more factors such as age, years of service, and compensation. Employees who were hired before July 1, 1999 and did not timely elect to participate in defined contribution plan are enrolled in this plan. The Housing Commission contributed 9.25%-13.74% of covered payroll.

For the year ended March 31, 2007, the following amounts related to the defined benefit plan:

Commission total payroll	\$ 595,420.18
Payroll for covered employees	\$ 186,711.35
Employer (Commission) contribution made	\$ 34,541.60

Defined Contribution Plan for employees hired on or after July 1, 1999:

A defined contribution plan depends solely on the amounts contributed to the plan plus investment earnings. Employees who were hired on or after July 1, 1999 are enrolled in defined contribution plan. The Housing Commission contributed 7% - 10% of covered payroll. The Housing Commission's contribution for each employee is fully vested after 7 years of continuous service.

For the year ended March 31, 2007, the following amounts related to the defined contribution plan:

Commission total payroll	\$ 595,420.18
Payroll for covered employees	\$ 164,031.90
Employer (Commission) contribution made	\$ 10,899.44
Forfeiture Amount	\$ 3,443.50

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

**NOTE 4 - Other Notes (Continued)**

**4b. Risk Management**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Commission manages these various risks of loss as follows:

Type of Loss	Method Managed
a. Torts, errors and omissions	Purchased insurance with Housing Insurance Services
b. Injuries to employees (workers' compensation)	Purchased insurance with Companies Specialty Workers Compensation Group; Claims are administered by PMC Insurance Agency, Inc.
c. Physical property loss and natural disasters	Purchased commercial insurance with \$1,000.00 deductibles.
d. Health and life	Purchased health insurance with Blue Cross and Blue Shield of Michigan; Life insurance is provided by Fort Dearborn Life.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

**4c. Commitments and Contingencies**

**Commitments—Construction**

At March 31, 2007, the Commission had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
CFP 501-06	\$ 405,161.00	\$ 274,962.75
	<u>\$ 405,161.00</u>	<u>\$ 274,962.75</u>

**Contingencies**

The Commission is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Commission in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

# BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

## COMBINING STATEMENT OF NET ASSETS BY PROGRAM

March 31, 2007

	Low Rent Program	Capital Fund Program	Business Activities- Historical Project
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 471,541.15	\$ ----	\$ 88,757.57
Investments	75,417.72	----	----
Receivable - net of allowances:			
Accounts	9,614.83	19,871.85	7,309.89
Accrued interest	1,143.66	----	----
Due from (to) interprogram	767.23	----	13,300.00
Inventory - net of allowances	5,980.10	----	----
Prepaid expenses	49,624.21	----	11,732.86
	<u>614,088.90</u>	<u>19,871.85</u>	<u>121,100.32</u>
Total Current Assets			
Noncurrent Assets:			
Restricted assets:			
Cash and cash equivalents	1,645,415.25	----	----
	<u>1,645,415.25</u>	<u>----</u>	<u>----</u>
Total restricted assets			
Capital assets:			
Land, improvements, and construction in progress	253,055.45	19,871.85	84,400.00
Other capital assets, net of depreciation	3,851,930.06	705,017.23	530,632.74
	<u>4,104,985.51</u>	<u>724,889.08</u>	<u>615,032.74</u>
Total capital assets- net			
Other assets			
Investment in joint venture	----	----	1,000.00
Bond issuance costs, net of amortization of \$	54,222.23	----	----
Organization costs- net	----	----	8,337.86
	<u>54,222.23</u>	<u>----</u>	<u>9,337.86</u>
Total other assets- net			
	<u>5,804,622.99</u>	<u>724,889.08</u>	<u>624,370.60</u>
Total Noncurrent Assets			
Total Assets	\$ <u>6,418,711.89</u>	\$ <u>744,760.93</u>	\$ <u>745,470.92</u>

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

March 31, 2007

	Low Rent Program	Capital Fund Program	Business Activities- Historical Project
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 85,714.57	\$ 19,871.85	\$ 4,833.16
Accrued compensated absences	10,020.00	----	----
Tenant security deposit liability	70,603.50	----	9,790.00
Interest payable	----	----	1,640.80
Current portion of long term debt	40,563.39	----	359,156.13
Deferred revenues	<u>14,906.27</u>	<u>----</u>	<u>5,180.02</u>
Total Current Liabilities	<u>221,807.73</u>	<u>19,871.85</u>	<u>380,600.11</u>
Noncurrent Liabilities:			
Long term debt	1,659,436.61	----	----
Accrued compensated absences	<u>10,816.02</u>	<u>----</u>	<u>----</u>
Total Noncurrent Liabilities	<u>1,670,252.63</u>	<u>----</u>	<u>----</u>
Total Liabilities	<u>1,892,060.36</u>	<u>19,871.85</u>	<u>380,600.11</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,104,622.99	724,889.08	255,876.61
Unrestricted	<u>422,028.54</u>	<u>----</u>	<u>108,994.20</u>
Total Net Assets	<u>4,526,651.53</u>	<u>724,889.08</u>	<u>364,870.81</u>
Total Liabilities and Net Assets	<u>\$ 6,418,711.89</u>	<u>\$ 744,760.93</u>	<u>\$ 745,470.92</u>



# BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

## COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

March 31, 2007

	Home Ownership	Childcare Center	Totals
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 2,151.24	\$ 18,422.14	\$ 580,872.10
Investments	-----	-----	75,417.72
Receivable - net of allowances:			
Accounts	1,792.35	5,427.10	44,016.02
Accrued interest	-----	-----	1,143.66
Due from (to) interprogram	(14,999.06)	931.83	-----
Inventory - net of allowances	-----	-----	5,980.10
Inventory - held for sale	283,892.09	-----	283,892.09
Prepaid expenses	-----	896.61	62,253.68
	<u>272,836.62</u>	<u>25,677.68</u>	<u>1,053,575.37</u>
Total Current Assets			
Noncurrent Assets:			
Restricted assets:			
Cash and cash equivalents	-----	-----	1,645,415.25
	<u>-----</u>	<u>-----</u>	<u>1,645,415.25</u>
Total restricted assets			
Capital assets:			
Land, improvements, and construction in progress	-----	-----	357,327.30
Other capital assets, net of depreciation	-----	5,251.51	5,092,831.54
	<u>-----</u>	<u>5,251.51</u>	<u>5,450,158.84</u>
Total capital assets- net			
Other assets			
Investment in joint venture	-----	-----	1,000.00
Bond issuance costs, net of amortization of \$	-----	-----	54,222.23
Organization costs- net	-----	-----	8,337.86
	<u>-----</u>	<u>-----</u>	<u>63,560.09</u>
Total other assets- net			
	<u>-----</u>	<u>5,251.51</u>	<u>7,159,134.18</u>
Total Noncurrent Assets			
Total Assets	\$ <u>272,836.62</u>	\$ <u>30,929.19</u>	\$ <u>8,212,709.55</u>

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

March 31, 2007

	Home Ownership	Childcare Center	Totals
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 611.34	\$ 2,995.84	\$ 114,026.76
Accrued compensated absences	-----	3,016.00	13,036.00
Tenant security deposit liability	-----	-----	80,393.50
Interest payable	411.07	-----	2,051.87
Current portion of long term debt	-----	-----	399,719.52
Deferred revenues	-----	2,796.60	22,882.89
	<u>1,022.41</u>	<u>8,808.44</u>	<u>632,110.54</u>
Total Current Liabilities			
Noncurrent Liabilities:			
Long term debt	88,000.00	-----	1,747,436.61
Accrued compensated absences	-----	1,778.91	12,594.93
	<u>88,000.00</u>	<u>1,778.91</u>	<u>1,760,031.54</u>
Total Noncurrent Liabilities			
Total Liabilities	<u>89,022.41</u>	<u>10,587.35</u>	<u>2,392,142.08</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	-----	5,251.51	5,090,640.19
Unrestricted	<u>183,814.21</u>	<u>15,090.33</u>	<u>729,927.28</u>
Total Net Assets	<u>183,814.21</u>	<u>20,341.84</u>	<u>5,820,567.47</u>
Total Liabilities and Net Assets	<u>\$ 272,836.62</u>	<u>\$ 30,929.19</u>	<u>\$ 8,212,709.55</u>

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**COMBINING STATEMENT OF REVENUE, EXPENSES AND  
CHANGES IN FUND NET ASSETS BY PROGRAM**

For Year Ended March 31, 2007

	Low Rent Program	Capital Fund Program	Business Activities- Historical Project
<b>Operating Revenues:</b>			
Rental revenue	\$ 681,704.88	\$ -----	\$ 156,000.00
Operating subsidies- HUD grants	413,558.16	107,795.00	-----
Other revenues	<u>119,572.07</u>	<u>-----</u>	<u>17,214.28</u>
Total operating revenues	<u>1,214,835.11</u>	<u>107,795.00</u>	<u>173,214.28</u>
<b>Operating Expenses:</b>			
Personal services	553,979.58	22,500.00	8,500.00
Utilities	301,083.25	-----	10,125.79
Operations and maintenance	70,008.65	6,595.00	17,955.23
Non routine maintenance	620.04	-----	-----
Insurance	62,598.90	-----	5,094.71
Payment in lieu of taxes	38,334.32	-----	10,911.09
Other supplies and expenses	151,244.93	-----	7,867.02
Depreciation	<u>467,308.20</u>	<u>35,075.65</u>	<u>17,880.97</u>
Total operating expenses	<u>1,645,177.87</u>	<u>64,170.65</u>	<u>78,334.81</u>
Operating income (loss)	<u>(430,342.76)</u>	<u>43,624.35</u>	<u>94,879.47</u>
<b>Non-operating revenues (expenses):</b>			
Interest and investment earnings	25,926.67	-----	1,524.59
Interest expense	(4,987.40)	-----	(27,108.90)
Gain (Loss) on sale of fixed assets	<u>150.00</u>	<u>-----</u>	<u>-----</u>
Net non-operating revenues (expenses)	<u>21,089.27</u>	<u>-----</u>	<u>(25,584.31)</u>
Income (loss) before other revenues, expenses, gains, losses and transfers	(409,253.49)	43,624.35	69,295.16

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**COMBINING STATEMENT OF REVENUE, EXPENSES AND  
CHANGES IN FUND NET ASSETS BY PROGRAM (CONTINUED)**

For Year Ended March 31, 2007

	Low Rent Program	Capital Fund Program	Business Activities- Historical Project
Capital contributions	-----	440,548.19	-----
Operating transfers in (out)	<u>78,700.00</u>	<u>(78,700.00)</u>	<u>-----</u>
Change in net assets	(330,553.49)	405,472.54	69,295.16
Net assets at beginning of year	4,523,318.84	653,302.72	295,575.65
Equity transfers	<u>333,886.18</u>	<u>(333,886.18)</u>	<u>-----</u>
Net assets at end of year	\$ <u><u>4,526,651.53</u></u>	\$ <u><u>724,889.08</u></u>	\$ <u><u>364,870.81</u></u>

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**COMBINING STATEMENT OF REVENUE, EXPENSES AND  
CHANGES IN FUND NET ASSETS BY PROGRAM (CONTINUED)**

For Year Ended March 31, 2007

	Home Ownership	Childcare Center	Totals
<b>Operating Revenues:</b>			
Rental revenue	\$ -----	\$ -----	\$ 837,704.88
Operating subsidies- HUD grants	41,352.00	-----	562,705.16
Operating subsidies- other grants	-----	10,827.83	10,827.83
Other revenues	12,600.70	263,839.94	413,226.99
	<u>53,952.70</u>	<u>274,667.77</u>	<u>1,824,464.86</u>
Total operating revenues			
<b>Operating Expenses:</b>			
Personal services	2,500.00	201,787.29	789,266.87
Utilities	2,430.05	6,757.96	320,397.05
Operations and maintenance	1,017.36	23,980.22	119,556.46
Non routine maintenance	-----	380.00	1,000.04
Insurance	-----	708.52	68,402.13
Payment in lieu of taxes	7,862.38	-----	57,107.79
Other supplies and expenses	1,690.96	7,264.79	168,067.70
Depreciation	-----	507.82	520,772.64
	<u>15,500.75</u>	<u>241,386.60</u>	<u>2,044,570.68</u>
Total operating expenses			
Operating income (loss)	<u>38,451.95</u>	<u>33,281.17</u>	<u>(220,105.82)</u>
<b>Non-operating revenues (expenses):</b>			
Interest and investment earnings	47.13	34.49	27,532.88
Interest expense	(7,594.63)	-----	(39,690.93)
Other revenue (expenses) net from sale of property	(95,574.34)	-----	(95,574.34)
Gain (Loss) on sale of fixed assets	-----	-----	150.00
	<u>(103,121.84)</u>	<u>34.49</u>	<u>(107,582.39)</u>
Net non-operating revenues (expenses)			
Income (loss) before other revenues, expenses, gains, losses and transfers	(64,669.89)	33,315.66	(327,688.21)

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**COMBINING STATEMENT OF REVENUE, EXPENSES AND  
CHANGES IN FUND NET ASSETS BY PROGRAM (CONTINUED)**

For Year Ended March 31, 2007

	Home Ownership	Childcare Center	Totals
Capital contributions	-----	-----	<u>440,548.19</u>
Change in net assets	(64,669.89)	33,315.66	112,859.98
Net assets at beginning of year	<u>248,484.10</u>	<u>(12,973.82)</u>	<u>5,707,707.49</u>
Net assets at end of year	\$ <u><u>183,814.21</u></u>	\$ <u><u>20,341.84</u></u>	\$ <u><u>5,820,567.47</u></u>

# BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

## COMBINING STATEMENT OF CASH FLOWS BY PROGRAM

For Year Ended March 31, 2007

	Low Rent Program	Capital Fund Program	Business Activities- Historical Project
<b>Cash flows from operating activities:</b>			
Cash received from tenants	\$ 684,120.93	\$ -----	\$ 155,435.00
Cash received from HUD grants- operating	413,558.16	107,795.00	-----
Cash received from other operating activities	116,372.70	-----	17,214.28
Cash payments for goods and services	(574,732.17)	(6,595.00)	(45,458.83)
Cash payments to employees-salaries	(393,869.45)	(18,670.00)	(6,179.00)
Cash payments for employee benefit contributions	(161,223.97)	(3,830.00)	(2,321.00)
Cash payments for in lieu of property taxes	<u>(35,996.94)</u>	<u>-----</u>	<u>(10,911.09)</u>
Net cash provided (used) by operating activities	<u>48,229.26</u>	<u>78,700.00</u>	<u>107,779.36</u>
<b>Cash flows from noncapital financing activities:</b>			
Operating transfers in (out)	78,700.00	(78,700.00)	-----
Receipts (payments) from interprograms	<u>93,592.67</u>	<u>-----</u>	<u>(474.78)</u>
Net cash provided (used ) from non capital financing activities	<u>172,292.67</u>	<u>(78,700.00)</u>	<u>(474.78)</u>
<b>Cash flows from capital and related financing activities:</b>			
Proceeds from capital debt	1,700,000.00	-----	-----
Capital contributions	-----	420,676.34	-----
Proceeds from sale of assets	150.00	-----	-----
Receipts (payments) from deferred credits and escrow deposits	(1,917.68)	-----	-----
Payments for capital assets	(41,551.41)	(420,676.34)	-----
Payments for loan issuance costs and capitalized interest	(54,222.23)	-----	-----
Principal paid on capital debt	-----	-----	(30,053.80)
Interest paid on capital debt including issuance cost amortization	<u>(4,987.40)</u>	<u>-----</u>	<u>(27,246.20)</u>
Net cash (used) for capital and related financing activities	<u>1,597,471.28</u>	<u>-----</u>	<u>(57,300.00)</u>
<b>Cash flows from investing activities:</b>			
Proceeds from sale of (payments) for investments	9,438.97	-----	-----
Interest and dividends	25,280.67	-----	1,524.59
Receipts (payments) from tenant security deposits	<u>(2,326.00)</u>	<u>-----</u>	<u>(700.00)</u>
Net cash provided (used ) from investing activities	<u>32,393.64</u>	<u>-----</u>	<u>824.59</u>

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)**

For Year Ended March 31, 2007

	Low Rent Program	Capital Fund Program	Business Activities- Historical Project
Net increase (decrease) in cash and cash equivalents	1,850,386.85	-----	50,829.17
Cash and cash equivalents at beginning of year	<u>266,569.55</u>	<u>-----</u>	<u>37,928.40</u>
Cash and cash equivalents at end of year	\$ <u>2,116,956.40</u>	\$ <u>-----</u>	\$ <u>88,757.57</u>
Cash and cash equivalents	\$ 471,541.15	\$ -----	\$ 88,757.57
Restricted cash and cash equivalents	<u>1,645,415.25</u>	<u>-----</u>	<u>-----</u>
Total cash and cash equivalents at end of year	\$ <u>2,116,956.40</u>	\$ <u>-----</u>	\$ <u>88,757.57</u>
<b>Noncash Investing, Capital and Financing Activities:</b>			
Acquisition of capital assets on account	\$ <u>-----</u>	\$ <u>19,872</u>	\$ <u>-----</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (430,342.76)	\$ 43,624.35	\$ 94,879.47
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	467,308.20	35,075.65	17,880.97
Allowance for doubtful accounts	(726.15)	-----	533.40
Changes in assets and liabilities:			
Receivables	(2,266.05)	-----	2,583.51
Inventory	963.08	-----	-----
Prepaid expenses	1,731.59	-----	(11,196.09)
Accounts and other payables	10,466.31	-----	1,523.10
Deferred revenues	2,208.88	-----	1,575.00
Compensated absences	(898.21)	-----	-----
Accrued expenses	<u>(215.63)</u>	<u>-----</u>	<u>-----</u>
Net cash provided (used) by operating activities	\$ <u>48,229.26</u>	\$ <u>78,700.00</u>	\$ <u>107,779.36</u>



BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended March 31, 2007

	Home Ownership	Childcare Center	Totals
<b>Cash flows from operating activities:</b>			
Cash received from tenants	\$ -----	\$ -----	\$ 839,555.93
Cash received from HUD grants- operating	41,352.00	-----	562,705.16
Cash received from other grants	-----	9,935.17	9,935.17
Cash received from other operating activities	13,766.44	262,728.63	410,082.05
Cash payments for goods and services	(6,656.52)	(37,361.25)	(670,803.77)
Cash payments to employees-salaries	(1,817.00)	(175,100.36)	(595,635.81)
Cash payments for employee benefit contributions	(683.00)	(25,118.97)	(193,176.94)
Cash payments for in lieu of property taxes	(7,862.38)	-----	(54,770.41)
Net cash provided (used) by operating activities	<u>38,099.54</u>	<u>35,083.22</u>	<u>307,891.38</u>
<b>Cash flows from noncapital financing activities:</b>			
Receipts (payments) from interprograms	<u>(79,717.15)</u>	<u>(13,400.74)</u>	<u>-----</u>
Net cash provided (used ) from non capital financing activities	<u>(79,717.15)</u>	<u>(13,400.74)</u>	<u>-----</u>
<b>Cash flows from capital and related financing activities:</b>			
Proceeds from capital debt	-----	-----	1,700,000.00
Capital contributions	-----	-----	420,676.34
Proceeds from sale of assets	157,798.41	-----	157,948.41
Receipts (payments) from deferred credits and escrow deposits	-----	-----	(1,917.68)
Payments for capital assets	-----	(3,499.66)	(465,727.41)
Payments for loan issuance costs and capitalized interest	-----	-----	(54,222.23)
Payments for inventory held for sale	(69,267.29)	-----	(69,267.29)
Principal paid on capital debt	(101,868.71)	-----	(131,922.51)
Interest paid on capital debt including issuance cost amortization	<u>(7,835.81)</u>	<u>-----</u>	<u>(40,069.41)</u>
Net cash (used) for capital and related financing activities	<u>(21,173.40)</u>	<u>(3,499.66)</u>	<u>1,515,498.22</u>
<b>Cash flows from investing activities:</b>			
Proceeds from sale of (payments) for investments	-----	-----	9,438.97
Interest and dividends	47.13	34.49	26,886.88
Receipts (payments) from tenant security deposits	<u>-----</u>	<u>-----</u>	<u>(3,026.00)</u>
Net cash provided (used ) from investing activities	<u>47.13</u>	<u>34.49</u>	<u>33,299.85</u>

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)**

For Year Ended March 31, 2007

	<u>Home Ownership</u>	<u>Childcare Center</u>	<u>Totals</u>
Net increase (decrease) in cash and cash equivalents	(62,743.88)	18,217.31	1,856,689.45
Cash and cash equivalents at beginning of year	<u>64,895.12</u>	<u>204.83</u>	<u>369,597.90</u>
Cash and cash equivalents at end of year	\$ <u><u>2,151.24</u></u>	\$ <u><u>18,422.14</u></u>	\$ <u><u>2,226,287.35</u></u>
Cash and cash equivalents	\$ 2,151.24	\$ 18,422.14	\$ 580,872.10
Restricted cash and cash equivalents	<u>-----</u>	<u>-----</u>	<u>1,645,415.25</u>
Total cash and cash equivalents at end of year	\$ <u><u>2,151.24</u></u>	\$ <u><u>18,422.14</u></u>	\$ <u><u>2,226,287.35</u></u>
<b>Noncash Investing, Capital and Financing Activities:</b>			
Acquisition of capital assets on account	\$ <u><u>-----</u></u>	\$ <u><u>-----</u></u>	\$ <u><u>19,871.85</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (nsed) by operating activities:</b>			
Operating income (loss)	\$ 38,451.95	\$ 33,281.17	\$ (220,105.82)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	-----	507.82	520,772.64
Allowance for doubtful accounts	-----	140.38	(52.37)
Changes in assets and liabilities:			
Receivables	(626.61)	(3,700.25)	(4,009.40)
Inventory	-----	-----	963.08
Prepaid expenses	-----	355.01	(9,109.49)
Accounts and other payables	274.20	1,375.23	13,638.84
Deferred revenues	-----	1,555.90	5,339.78
Compensated absences	-----	1,567.96	669.75
Accrued expenses	<u>-----</u>	<u>-----</u>	<u>(215.63)</u>
Net cash provided (used) by operating activities	\$ <u><u>38,099.54</u></u>	\$ <u><u>35,083.22</u></u>	\$ <u><u>307,891.38</u></u>

# BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS

Year Ended March 31, 2007

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal Year</u>	<u>Federal Grantor</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of Agriculture</u>		
	<u>Nonmajor - Indirect Program</u> <u>(Pass through State of Michigan Department of</u> <u>Education)</u>		
2007	Child and Adult Care Food Program	10-558	\$ <u>10,827.83</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Nonmajor - Indirect Program</u> <u>(Pass through Michigan State Housing Development</u> <u>Authority)</u>		
2007	HOME Investment Partnership Program	14.239	\$ <u>23,095.38</u>
	<u>Public and Indian Housing</u> <u>Major - Direct Program</u>		
2007	Low Rent Program	14.850a	\$ <u>413,558.16</u>
	<u>Public and Indian Housing</u> <u>Major - Direct Program</u>		
2007	Capital Fund program	14.872	\$ <u>548,343.19</u>
	<b>Total</b>		\$ <u>995,824.56</u>

### NOTES TO THE SCHEDULE OF FEDERAL AWARDS

#### **NOTE 1 - Significant Accounting Policies**

The schedule of federal awards has been prepared on the accrual basis of accounting.

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**PHA'S STATEMENT AND CERTIFICATION OF  
CAPITAL FUND PROGRAM COSTS**

March 31, 2007

1. Actual Capital Fund Program costs are as follows:

	<u><b>CFP 501-04</b></u>
Funds approved	\$ 463,429.00
Funds expended	<u>463,429.00</u>
Excess of Funds Approved	\$ <u>-----</u>
Funds advanced	\$ 463,429.00
Funds expended	<u>463,429.00</u>
Excess (deficiency) of Funds Advanced	\$ <u>-----</u>

2. The costs as shown on the Actual Cost Certificate dated August 31, 2006 submitted to HUD for approval is in agreement with the PHA's records as of March 31, 2007.
3. All costs have been paid and all related liabilities have been discharged through payments.

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**PHA'S STATEMENT AND CERTIFICATION OF  
CAPITAL FUND PROGRAM COSTS**

March 31, 2007

1. Actual Capital Fund Program costs are as follows:

	<u><b>CFP 501-05</b></u>
Funds approved	\$ 405,100.00
Funds expended	<u>405,100.00</u>
Excess of Funds Approved	\$ <u>-----</u>
Funds advanced	\$ 405,100.00
Funds expended	<u>405,100.00</u>
Excess (deficiency) of Funds Advanced	\$ <u>-----</u>

2. The costs as shown on the Actual Cost Certificate dated March 2, 2007 submitted to HUD for approval is in agreement with the PHA's records as of March 31, 2007.
3. All costs have been paid and all related liabilities have been discharged through payments.

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

FINANCIAL DATA SCHEDULE

Year Ended March 31, 2007

FDS Line Item No.		Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>	Business Activities- Historical Project <u>-</u>
	<b>Assets:</b>			
	Current Assets:			
	Cash			
111	Cash-unrestricted	\$ 400,937.65	\$ ----	\$ 78,967.57
113	Cash-other restricted	1,645,415.25	----	----
114	Cash-tenant security deposits	<u>70,603.50</u>	<u>----</u>	<u>9,790.00</u>
100	Total cash	<u>2,116,956.40</u>	<u>----</u>	<u>88,757.57</u>
	Accounts and notes receivable:			
122	Accounts receivable-HUD	----	19,871.85	----
125	Accounts receivable- miscellaneous	3,754.37	----	5,169.89
126	Accounts receivable- tenants-dwelling rents	6,168.91	----	2,673.40
126.1	Allowance for doubtful accounts-dwelling rents	(308.45)	----	(533.40)
129	Accrued interest receivable	<u>1,143.66</u>	<u>----</u>	<u>----</u>
120	Total receivables, net of allowance for doubtful accounts	<u>10,758.49</u>	<u>19,871.85</u>	<u>7,309.89</u>
	Current investments:			
131	Investments-unrestricted	75,417.72	----	----
142	Prepaid expenses and other assets	49,624.21	----	11,732.86
143	Inventories	5,980.10	----	----
144/ (347)	Interprogram due from	<u>767.23</u>	<u>----</u>	<u>13,300.00</u>
150	Total current assets	<u>2,259,504.15</u>	<u>19,871.85</u>	<u>121,100.32</u>

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**FINANCIAL DATA SCHEDULE (CONTINUED)**

Year Ended March 31, 2007

FDS Line Item No.		Low Rent Program 14.850a	Capital Fund Program 14.872	Business Activities- Historical Project -
	Noncurrent Assets:			
	Fixed assets:			
161	Land	253,055.45	-----	84,400.00
162	Buildings	12,117,500.94	553,343.87	644,263.11
163	Furniture, equipment and machinery-dwellings	167,435.00	21,334.57	-----
164	Furniture, equipment and machinery- administration	302,495.21	39,367.26	1,310.00
165	Leasehold improvements	633,805.49	143,907.20	-----
166	Accumulated depreciation	(9,369,306.58)	(52,935.67)	(114,940.37)
167	Construction in progress	-----	19,871.85	-----
160	Total fixed assets, net of accumulated depreciation	<u>4,104,985.51</u>	<u>724,889.08</u>	<u>615,032.74</u>
174	Other assets	54,222.23	-----	8,337.86
176	Investment in joint venture	-----	-----	1,000.00
180	Total noncurrent assets	<u>4,159,207.74</u>	<u>724,889.08</u>	<u>624,370.60</u>
190	Total Assets	<u>\$ 6,418,711.89</u>	<u>\$ 744,760.93</u>	<u>\$ 745,470.92</u>
	<b>Liabilities and Equity:</b>			
	Liabilities:			
	Current Liabilities:			
312	Accounts payable < 90 days	\$ (47,380.25)	\$ (19,871.85)	\$ (3,833.16)
322	Accrued compensated absences- current portion	(10,020.00)	-----	-----
325	Accrued interest payable	-----	-----	(1,640.80)
333	Accounts payable -other government	(38,334.32)	-----	-----
341	Tenant security deposits	(70,603.50)	-----	(9,790.00)
342	Deferred revenues	(14,906.27)	-----	(5,180.02)
343	Current portion of L - T debt capital projects	(40,563.39)	-----	(359,156.13)
346	Accrued liabilities-other	-----	-----	(1,000.00)
310	Total current liabilities	<u>(221,807.73)</u>	<u>(19,871.85)</u>	<u>(380,600.11)</u>

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**FINANCIAL DATA SCHEDULE (CONTINUED)**

Year Ended March 31, 2007

FDS Line Item No.		Low Rent Program 14.850a	Capital Fund Program 14.872	Business Activities- Historical Project -
	Noncurrent Liabilities:			
351	Long-term debt, net of current-capital projects	(1,659,436.61)	----	----
354	Accrued compensated absences- non current portion	<u>(10,816.02)</u>	<u>----</u>	<u>----</u>
350	Total noncurrent liabilities	<u>(1,670,252.63)</u>	<u>----</u>	<u>----</u>
300	Total liabilities	<u>(1,892,060.36)</u>	<u>(19,871.85)</u>	<u>(380,600.11)</u>
	Equity:			
508.1	Investment in capital assets , Net of Related Debt	<u>(4,104,622.99)</u>	<u>(724,889.08)</u>	<u>(255,876.61)</u>
512.1	Unrestricted Net Assets	<u>(422,028.54)</u>	<u>----</u>	<u>(108,994.20)</u>
600	Total Liabilities and Equity	<u>\$ (6,418,711.89)</u>	<u>\$ (744,760.93)</u>	<u>\$ (745,470.92)</u>
	<b>Revenue:</b>			
703	Net rental revenue	\$ (672,035.99)	\$ ----	\$ (156,518.84)
704	Tenant revenue-other	<u>(12,390.46)</u>	<u>----</u>	<u>(14.56)</u>
705	Total tenant revenue	<u>(684,426.45)</u>	<u>----</u>	<u>(156,533.40)</u>
706	HUD PHA operating grants	(413,558.16)	(107,795.00)	----
706.1	HUD PHA capital grants	----	(440,548.19)	----
711	Investment income-unrestricted	(21,239.79)	----	(1,524.59)
715	Other revenue	(119,572.07)	----	(17,214.28)
716	Gain on sale of fixed assets	(150.00)	----	----
720	Investment income-restricted	<u>(4,686.88)</u>	<u>----</u>	<u>----</u>
700	Total revenue	<u>(1,243,633.35)</u>	<u>(548,343.19)</u>	<u>(175,272.27)</u>



BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended March 31, 2007

FDS Line Item No.		Low Rent Program 14.850a	Capital Fund Program 14.872	Business Activities- Historical Project -
	<b>Expenses:</b>			
	Administrative			
911	Administrative salaries	261,160.91	11,170.00	6,179.00
912	Auditing fees	7,500.00	----	----
914	Compensated absences	(898.21)	----	----
915	Employee benefit contributions-administrative	98,969.09	3,830.00	2,321.00
916	Other operating-administrative	57,386.20	----	7,867.02
	Tenant services			
924	Tenant services-other	82,752.73	----	----
	Utilities			
931	Water	97,666.38	----	3,871.73
932	Electricity	64,512.79	----	4,180.97
933	Gas	138,904.08	----	2,073.09
	Ordinary maintenance and operation			
941	Ordinary maintenance and operation-labor	132,492.91	----	----
942	Ordinary maintenance and operation-materials & other	33,720.36	3,437.00	1,356.06
943	Ordinary maintenance and operation-contract costs	35,939.24	3,158.00	16,599.17
945	Employee benefit contributions-ordinary maintenance	62,254.88	----	----
	Protective services			
951	Protective services-labor	----	7,500.00	----
952	Protective services-other contract costs	349.05	----	----

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended March 31, 2007

FDS Line Item No.		Low Rent Program 14.850a	Capital Fund Program 14.872	Business Activities- Historical Project -
	General expenses			
961	Insurance premiums	62,598.90	----	5,094.71
962	Other general expense	3,606.00	----	-----
963	Payments in lieu of taxes	38,334.32	----	10,911.09
964	Bad debts- tenant rents	2,721.57	----	533.40
967	Interest expense	4,987.40	----	27,108.90
969	Total operating expenses	1,184,958.60	29,095.00	88,096.14
970	Excess (deficit) operating revenue over operating expenses	58,674.75	519,248.19	87,176.13
972	Casualty losses-non capitalized	620.04	----	-----
974	Depreciation expense	467,308.20	35,075.65	17,880.97
	Total expenses other than total operating	467,928.24	35,075.65	17,880.97
1000	Excess (deficit) of revenue over expenses before operating transfers in (out) and depreciation add back	(409,253.49)	484,172.54	69,295.16
1001	Operating transfers in	78,700.00	----	-----
1002	Operating transfers out	----	(78,700.00)	-----
	Excess (deficit) of revenue over expenses after operating transfers in (out) and depreciation add back	\$ (330,553.49)	\$ 405,472.54	\$ 69,295.16

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**FINANCIAL DATA SCHEDULE (CONTINUED)**

Year Ended March 31, 2007

FDS Line Item No.		Home Ownership 14.239	Childcare Center 10-558	Total
	<b>Assets:</b>			
	Current Assets:			
	Cash			
111	Cash-unrestricted	\$ 2,151.24	\$ 18,422.14	\$ 500,478.60
113	Cash-other restricted	-----	-----	1,645,415.25
114	Cash-tenant security deposits	-----	-----	80,393.50
100	Total cash	<u>2,151.24</u>	<u>18,422.14</u>	<u>2,226,287.35</u>
	Accounts and notes receivable:			
122	Accounts receivable-HUD	-----	-----	19,871.85
124	Accounts receivable- other government	-----	892.66	892.66
125	Accounts receivable- miscellaneous	1,792.35	4,773.10	15,489.71
126	Accounts receivable- tenants-dwelling rents	-----	-----	8,842.31
126.1	Allowance for doubtful accounts-dwelling rents	-----	-----	(841.85)
126.2	Allowance for doubtful accounts-other	-----	(238.66)	(238.66)
129	Accrued interest receivable	-----	-----	1,143.66
120	Total receivables, net of allowance for doubtful accounts	<u>1,792.35</u>	<u>5,427.10</u>	<u>45,159.68</u>
	Current investments:			
131	Investments-unrestricted	-----	-----	75,417.72
142	Prepaid expenses and other assets	-----	896.61	62,253.68
143	Inventories	-----	-----	5,980.10
144/				
(347)	Interprogram due from	(14,999.06)	931.83	-----
145	Assets held for sale	<u>283,892.09</u>	-----	<u>283,892.09</u>
150	Total current assets	<u>272,836.62</u>	<u>25,677.68</u>	<u>2,698,990.62</u>

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**FINANCIAL DATA SCHEDULE (CONTINUED)**

Year Ended March 31, 2007

FDS Line Item No.		Home Ownership 14,239	Childcare Center 10-558	Total
	Noncurrent Assets:			
	Fixed assets:			
161	Land	----	----	337,455.45
162	Buildings	----	900.00	13,316,007.92
163	Furniture, equipment and machinery-dwellings	----	----	188,769.57
164	Furniture, equipment and machinery- administration	----	5,926.57	349,099.04
165	Leasehold improvements	----	3,499.66	781,212.35
166	Accumulated depreciation	----	(5,074.72)	(9,542,257.34)
167	Construction in progress	----	----	19,871.85
160	Total fixed assets, net of accumulated depreciation	----	5,251.51	5,450,158.84
174	Other assets	----	----	62,560.09
176	Investment in joint venture	----	----	1,000.00
180	Total noncurrent assets	----	5,251.51	5,513,718.93
190	Total Assets	\$ 272,836.62	\$ 30,929.19	\$ 8,212,709.55
	<b>Liabilities and Equity:</b>			
	Liabilities:			
	Current Liabilities:			
312	Accounts payable < 90 days	\$ (611.34)	\$ (2,995.84)	\$ (74,692.44)
322	Accrued compensated absences- current portion	----	(3,016.00)	(13,036.00)
325	Accrued interest payable	(411.07)	----	(2,051.87)
333	Accounts payable -other government	----	----	(38,334.32)
341	Tenant security deposits	----	----	(80,393.50)
342	Deferred revenues	----	(2,796.60)	(22,882.89)
343	Current portion of L - T debt capital projects	----	----	(399,719.52)
346	Accrued liabilities-other	----	----	(1,000.00)
310	Total current liabilities	(1,022.41)	(8,808.44)	(632,110.54)

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**FINANCIAL DATA SCHEDULE (CONTINUED)**

Year Ended March 31, 2007

FDS Line Item No.		Home Ownership 14.239	Childcare Center 10-558	Total
	Noncurrent Liabilities:			
351	Long-term debt, net of current-capital projects	----	----	(1,659,436.61)
352	Long-term debt, net of current-operating borrowings	(88,000.00)	----	(88,000.00)
354	Accrued compensated absences- non current portion	----	(1,778.91)	(12,594.93)
350	Total noncurrent liabilities	(88,000.00)	(1,778.91)	(1,760,031.54)
300	Total liabilities	(89,022.41)	(10,587.35)	(2,392,142.08)
	Equity:			
508.1	Investment in capital assets , Net of Related Debt	----	(5,251.51)	(5,090,640.19)
512.1	Unrestricted Net Assets	(183,814.21)	(15,090.33)	(729,927.28)
600	Total Liabilities and Equity	\$ (272,836.62)	\$ (30,929.19)	\$ (8,212,709.55)
	Revenue:			
703	Net rental revenue	\$ ----	\$ ----	\$ (828,554.83)
704	Tenant revenue-other	----	----	(12,405.02)
705	Total tenant revenue	----	----	(840,959.85)
706	HUD PHA operating grants	(41,352.00)	----	(562,705.16)
706.1	HUD PHA capital grants	----	----	(440,548.19)
708	Other government grants	----	(10,827.83)	(10,827.83)
711	Investment income-unrestricted	(47.13)	(34.49)	(22,846.00)
713	Proceeds from disposition of assets held for sale	(116,247.00)	----	(116,247.00)
713.1	Cost of sale of assets	211,821.34	----	211,821.34
715	Other revenue	(12,600.70)	(265,508.93)	(414,895.98)
716	Gain on sale of fixed assets	----	----	(150.00)
720	Investment income-restricted	----	----	(4,686.88)
700	Total revenue	41,574.51	(276,371.25)	(2,202,045.55)

# BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

## FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended March 31, 2007

FDS Line Item No.		Home Ownership 14.239	Childcare Center 10-558	Total
	<b>Expenses:</b>			
	Administrative			
911	Administrative salaries	1,817.00	175,100.36	455,427.27
912	Auditing fees	-----	-----	7,500.00
914	Compensated absences	-----	1,567.96	669.75
915	Employee benefit contributions-administrative	683.00	25,118.97	130,922.06
916	Other operating-administrative	1,390.96	7,264.79	73,908.97
	Tenant services			
924	Tenant services-other	-----	-----	82,752.73
	Utilities			
931	Water	108.42	1,883.28	103,529.81
932	Electricity	641.29	3,420.13	72,755.18
933	Gas	1,680.34	1,454.55	144,112.06
	Ordinary maintenance and operation			
941	Ordinary maintenance and operation-labor	-----	-----	132,492.91
942	Ordinary maintenance and operation-materials & other	361.80	22,751.96	61,627.18
943	Ordinary maintenance and operation-contract costs	655.56	1,228.26	57,580.23
945	Employee benefit contributions-ordinary maintenance	-----	-----	62,254.88
	Protective services			
951	Protective services-labor	-----	-----	7,500.00
952	Protective services-other contract costs	-----	-----	349.05

# BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

## FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended March 31, 2007

FDS Line Item No.	Home Ownership 14.239	Childcare Center 10-558	Total
General expenses			
961 Insurance premiums	----	708.52	68,402.13
962 Other general expense	300.00	----	3,906.00
963 Payments in lieu of taxes	7,862.38	----	57,107.79
964 Bad debts- tenant rents	----	----	3,254.97
966 Bad debts- other	----	1,668.99	1,668.99
967 Interest expense	<u>7,594.63</u>	----	<u>39,690.93</u>
969 Total operating expenses	<u>23,095.38</u>	<u>242,167.77</u>	<u>1,567,412.89</u>
970 Excess (deficit) operating revenue over operating expenses	<u>(64,669.89)</u>	<u>34,203.48</u>	<u>634,632.66</u>
972 Casualty losses-non capitalized	----	380.00	1,000.04
974 Depreciation expense	<u>----</u>	<u>507.82</u>	<u>520,772.64</u>
Total expenses other than total operating	<u>----</u>	<u>887.82</u>	<u>521,772.68</u>
Excess (deficit) of revenue over expenses before operating transfers in (out) and depreciation add back	(64,669.89)	33,315.66	112,859.98
1001 Operating transfers in	----	----	78,700.00
1002 Operating transfers out	<u>----</u>	<u>----</u>	<u>(78,700.00)</u>
Excess (deficit) of revenue over expenses after operating transfers in (out) and depreciation add back	<u>\$ (64,669.89)</u>	<u>\$ 33,315.66</u>	<u>\$ 112,859.98</u>

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards***

Board of Commissioners  
Big Rapids Housing Commission  
Big Rapids, Michigan

We have audited the basic financial statements of the Big Rapids Housing Commission, Michigan, (Commission) as of and for the year ended March 31, 2007, and have issued our report thereon dated June 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies above is a material weakness.

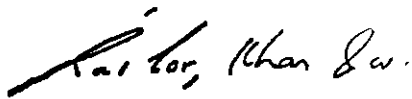


**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs.

The Commission's written response to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and uses of management, the Board of Commissioners, others within the Commission, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Sailor, Khan & Co. LLC

June 7, 2007

**Khan & Co. LLC****Report on Compliance with Requirements Applicable to Each Major Program and  
Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Commissioners  
Big Rapids Housing Commission  
Big Rapids, Michigan

**Compliance**

We have audited the compliance of the Big Rapids Housing Commission, Michigan, (Commission) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2007. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission compliance with those requirements.

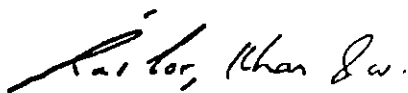
In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2007. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

**Internal Control Over Compliance**

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control, which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Big Rapids Housing Commission, Michigan's management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Sailor, Khan & Co. LLC

June 7, 2007

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**SIGNIFICANT DEFICIENCIES COMMUNICATED IN PRIOR YEARS**

March 31, 2007

The prior audit report for the year ended March 31, 2006 contained one audit finding:

**Financial Statement Findings**

none

**Federal Awards Findings**

**Finding:** Bank Collateral  
**Status:** Implemented

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

March 31, 2007

SECTION I - SUMMARY OF AUDITOR RESULTS

Financial Statement:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
▶ Material weakness(es) identified?	No
▶ Reportable condition(s) identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No
Is a "going concern" explanatory paragraph included in audit report?	No

Federal Awards:

Internal control over major programs:	
▶ Material weakness(es) identified?	No
▶ Reportable condition(s) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) on Circular A-133?	No

Identification of major programs:

CFDA	
Number(s)	Name of Federal Program
14-850a	Public and Indian Housing
14-872	Public and Indian Housing - Capital Fund Program

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

**BIG RAPIDS HOUSING COMMISSION**

Big Rapids, Michigan

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

March 31, 2007

**SECTION II - FINANCIAL STATEMENT FINDINGS**

The current audit report for the year ended March 31, 2007 disclosed the following Financial Statement audit findings:

1. Segregation of Duties

Criteria:

To ensure effectiveness of Internal Control, there needs to be an adequate division of duties among those who perform accounting procedures or control activities and those who handle assets. Although it is a basic key internal control and one of the most difficult to achieve, it must be considered and addressed in an effective manner to strengthen the control environment.

Condition:

Although it may be difficult to effect segregation of duties due to the smaller size of the Authority, we noted that mitigating or compensating controls were not designed to reduce the risk of errors or irregularities.

Questioned Costs:

none

Effect:

With the existence of adequate segregation of duties, there is the reduced risk of error and other intentional activities that could affect the integrity of the financial statements or physical custody of assets.

Cause:

The size of the organization was primarily the reason for the lack of segregation of duties.

Recommendation:

We recommend that the Authority's management and its Board design a system of internal control that would address all of the features of an effective internal control system with due consideration to the limitations imposed on the system.

Management's Response:

The Big Rapids Housing Commission in 2006, adopted an Internal Control Policy specifying particular duties for various staff. The Big Rapids Housing Commission Management believes that the Internal Control Process in place is significantly improved from fiscal year ended March 31, 2006, where there was no finding regarding internal controls. The Big Rapids Housing Commission will immediately begin documenting all internal control activities to provide verification.

Action Plan:

The person designated to resolving this finding is Mark W. Sochocki, Executive Director.

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

March 31, 2007

**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

2. Financial Statements

Criteria:

The Authority is responsible for establishing and maintaining controls over the preparation of the financial statements.

Condition:

We believe the Authority did not have controls over the preparation of the financial statements, including footnote disclosures, to prevent or detect a misstatement in the financial statements.

Questioned Costs:

none

Effect:

As a result, potential misstatements in the financial statements may go undetected.

Cause:

The size of the organization was primarily the reason for the lack of systematic controls over the preparation of the financial statements.

Recommendation:

We recommend that the Authority take steps to establish a system of controls over financial reporting to prevent or detect misstatements in the financial statements.

Management's Response:

The Big Rapids Housing Commission will develop more thorough control and disclosure methods to ensure that the Financial Statements accurately and fairly represent the financial position of the commission.

Action Plan:

The person designated to resolving this finding is Mark W. Sochocki, Executive Director.

BIG RAPIDS HOUSING COMMISSION

Big Rapids, Michigan

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

March 31, 2007

**SECTION III - FEDERAL AWARD FINDINGS**

The current audit report for the year ended March 31, 2007 disclosed no Federal Awards audit findings.